

**State Investment Commission**  
**Minutes**  
**December 18, 2003**

The State Investment Commission ("the Commission") was called to order by Jonathan Miller, State Treasurer at 2:00 p.m. on December 18, 2003 in Room 264 of the Capitol Annex. Other members present were Robbie Rudolph, Secretary, Finance and Administration Cabinet and Mike Alexander, proxy for Governor Ernie Fletcher.

Treasurer Miller confirmed that a quorum was present and the press had been notified of the meeting.

The first item on the agenda was the introduction of Robbie Rudolph, Secretary of the Finance and Administration Cabinet.

Mr. George R. Burgess, Jr., Executive Director, Office of Financial Management, introduced Mr. Rudolph. Mr. Rudolph was appointed Secretary of the Finance and Administration Cabinet on December 15, 2003. He is the owner and president of Rudolph Tire in Murray, Kentucky. Mr. Burgess welcomed Mr. Rudolph to the Cabinet and the State Investment Commission.

A motion was made by Mike Alexander and seconded by Robbie Rudolph to accept the minutes of the September 26, 2003 meeting.

Dwight Price, Portfolio Manager, Office of Financial Management, presented the economic update. Mr. Price reported that on the national level, unemployment fell to 5.9 percent in November from 6.0 percent in October. Mr. Price also stated that estimated total retail sales for Friday, November 28 hit \$7.2 billion and online sales were estimated to be \$200 million, a 32 percent increase over sales the same day a year ago. Mr. Price indicated that the consumer confidence index was 17 points above its 2003 low set in March 2003. Mr. Price reported that new car and truck sales were up, manufacturing activity jumped to 62.8 in November, and construction spending jumped in October setting a new record for a fourth straight month as low mortgage rates pushed home building up.

Mr. Price indicated that Kentucky's unemployment rate dipped to 5.5 in October, which was lower than the national rate of 6 percent. Several plant closings in Louisville, Paintsville and Richmond will result in the loss of approximately 525 jobs. However, 260 jobs will be recovered due to the opening of a Canadian snowplow maker and a packaging distributor in Bullitt County. He reported that the travel and tourism industry was up 5.4 percent from October 2002.

Mr. Price presented a portfolio update to the Commission members. The charts included in Attachment B of the agenda book were discussed. The charts show that the Commonwealth is outperforming the indices used for comparison. Other charts show that the Commonwealth arranges its portfolios to have less volatility than the indices. This can be ascertained by seeing that while the Commonwealth does not earn as much income when the market is trading up, it does not lose as much when the markets are trading lower. This

philosophy fits with the State Investment Commission's philosophy that safety of principal is of primary concern. The final chart for portfolio update shows a percentage breakdown of the security types that the Commonwealth owns. It shows that we are well within our limits on each security type and that the bulk of the Commonwealth's securities are in AAA rated securities. Our portfolio is AAA rated.

Mr. Steve Jones, portfolio administrator, Office of Financial Management, discussed the Commonwealth's current interest rate swap positions. Mr. Jones indicated there are two positions totalling \$100 million in notional amount. In the first position, the Commonwealth will receive 2.21 percent fixed on \$30 million notional versus paying 3 month LIBOR flat for two years. In the second, the Commonwealth receives 2.84 percent fixed on \$70 million notional versus paying 3 month LIBOR flat for three years. The Counterparty for both of these positions is Goldman Sachs. Both swaps will begin accruing interest on January 26, 2004, with the Commonwealth expected to earn about \$1.5 million per year if interest rates stay steady. Mr. Jones also explained that the Commonwealth had recently purchased a Federal Home Loan Mortgage Corporation mortgage pass through security of roughly \$2.5 million. This pass through is comprised entirely of mortgages on homes in the Commonwealth of Kentucky.

Mr. Price discussed the proposed resolution relating to the credit ratings on the securities held by the Commonwealth. Mr. Price indicated that presently there are no guidelines as to when securities must be sold after their credit ratings drop. Mr. Price indicated that staff would present a resolution for adoption at the next meeting.

With no further business before the Commission, the meeting was adjourned at 2:45 p.m.

Respectfully submitted,

George R. Burgess, Jr.  
Executive Director